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Solid Wood Products

Annual

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Report Highlights:

The majority of Australia's commercial lumber production is derived from forest plantations. Softwoods, mostly *Pinus radiata*, constitute about two-thirds of all plantations; although most new plantings are to hardwoods, primarily *Eucalyptus globulus*. Strong demand for softwood lumber from the building sector is being met by a high level of domestic cutting and relatively large imports, principally from New Zealand and Canada. The government is seeking to further increase the proportion of logs sourced from forest plantations.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1], AS

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Executive Summary

Australia has a total forest and woodland area of 165.9 million hectares, made up of around 47.6 million hectares of native forest, 116.7 million hectares of woodland, and around 1.5 million hectares of plantations. An estimated 11.8 million hectares of native forest are classified multiple use and are available for timber production. Approximately 23 percent of forest land is privately owned, with the remaining 77 percent in the public domain. Of the publicly held forest land, about 60 percent is under private management through leasehold arrangement.

Plantation area on September 30, 2000 was an estimated 1,484,740 hectares, comprising 972,100 hectares of softwood and 502,600 hectares of hardwood. Since 1997, new plantations have totaled 339,640 hectares, with a record 124,850 hectares planted in 2000, surpassing the previous record of 95,000 hectares planted in 1999.

Softwood log production was up just 3 percent in 2000/01 to 12.9 million cubic meters. Production is estimated by post to have increased dramatically to 16.5 million cubic meters, in line with ABARE estimated increase in softwood lumber production. Stronger building activity, particularly within the housing sector, combined with the commencement of the removal of trees from areas planted under the Commonwealth Softwood Agreement Act (which commenced in the 1960's) are believed to be the driving factors behind this increase.

Post forecasts roundwood removal to remain high for 2002/03 at around 16.5 million cubic meters. Softwood lumber production is expected to follow suit remaining at three million cubic meters.

Australia's consumption of sawn wood and wood based panels rose sharply in 2001/02, following the slump in 2000/01 which was bought on by a sharp decline in building activity. (See policy, taxation).

Australia's apparent consumption of sawnwood increased by 13 percent in 2001/02 to an estimated 4.7 million cubic meters, following a decline of 15 percent in the previous year. Coniferous sawnwood consumption in 2001/02 was up 23 percent to 3.6 million cubic meters, and hardwood consumption was up ten percent to 1.1 million cubic meters.

Apparent consumption of wood-based panels was up nine percent in 2001/02, reaching 1.6 million cubic meters. This follows a fall of 12 percent the previous year.

Paper and paper board consumption increased by three percent in 2000/01, to 3.8 million cubic meters. However, as these products are not closely associated with the building industry, consumption fell only slightly the previous year.

Production

PSD Table						
Country	Australia					
Commodity	Softwood Logs				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Production	11400	12873	12060	16477	0	16500
Imports	1	1	1	1	0	1
TOTAL SUPPLY	11401	12874	12061	16478	0	16501
Exports	900	752	900	900	0	900
Domestic Consumption	10501	12122	11161	15578	0	15601
TOTAL DISTRIBUTION	11401	12874	12061	16478	0	16501

PSD Table						
Country	Australia					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Production	2458	2351	2600	3007	0	3000
Imports	513	611	550	632	0	600
TOTAL SUPPLY	2971	2962	3150	3639	0	3600
Exports	51	43	50	62	0	60
Domestic Consumption	2920	2919	3100	3577	0	3540
TOTAL DISTRIBUTION	2971	2962	3150	3639	0	3600

Forest Area

Australia has a total forest and woodland area of 165.9 million hectares, made up of around 47.6 million hectares of native forest, 116.7 million hectares of woodland, and around 1.5 million hectares of plantations. An estimated 11.8 million hectares of native forest are classified multiple use and are available for timber production. Approximately 23 percent of forest land is privately owned, with the remaining 77 percent in the public domain. Of the publicly held forest land, about 60 percent is under private management through leasehold arrangement.

Plantation area on September 30, 2000 was an estimated 1,484,740 hectares, comprising 972,100 hectares of softwood and 502,600 hectares of hardwood. Since 1997, new plantations have totaled 339,640 hectares, with a record 124,850 hectares planted in 2000, surpassing the previous record of 95,000 hectares planted in 1999.

Since 1990, plantation planting has shifted from primarily softwood to mostly hardwood. Today, approximately 90 percent of the standing hardwood plantations have been planted since 1990.

Hardwoods are mainly native Eucalypts, with *Pinus Radiata* (Radiata Pine) being the most common softwood. Virtually all of the softwood plantations are planted to Radiata pine, whereas most of the hardwood plantations consist of *Eucalyptus globulos*.

Softwood log production was up just 3 percent in 2000/01 to 12.9 million cubic meters. Production is estimated by post to have increased dramatically to 16.5 million cubic meters, in line with ABARE estimated increase in softwood lumber production. Stronger building activity, particularly within the housing sector, combined with the commencement of the removal of trees from areas planted under the Commonwealth Softwood Agreement Act (which commenced in the 1960's) are believed to be the driving factors behind this increase.

Post forecasts roundwood removal to remain high for 2002/03 at around 16.5 million cubic meters. Softwood lumber production is expected to follow suit remaining at three million cubic meters.

Softwood logs for processing have increasingly been sourced from the relatively large base of maturing softwood plantations. Declining availability and higher prices of hardwood timber has increased interest in expanding plantings of Australian native hardwood species.

STATE	CURRENT PLANTATIONS On September 30, 1999 ('000 ha)		NEW PLANTATIONS ESTABLISHED On September 30, 1999 ('000 ha)	
	Softwood	Hardwood	Softwood	Hardwood
NSW	270.67	44.63	2.17	0.08
Victoria	215.11	101.45	0.69	36.97
Queensland	178.62	9.44	0.78	3.87
Western Australia	98.44	214.99	4.93	59.84
South Australia	113.87	20.70	0.78	14.32
Tasmania	75.63	109.57	0.00	0.00
Northern Territory	5.24	1.65	0.00	1.19
Australian Capital Territory	14.59	0.19	0.00	0.00
Total	972.1	502.6	8.57	116.28

SOURCE: ABARE - Australian Forest and Wood Products Statistics, October 2001.

As of June 2000, around 77 percent of forest plantations were publically owned. The high degree of public ownership reflects active government involvement in plantation development over the past thirty years. This involvement has included subsidized loans and grants through the Softwood Forestry Agreement Acts, the National Afforestation Program, direct investment by state forest agencies, tax incentives and environmental programs.

Plantations represent less than one percent of Australia's forests yet supplied around 55 percent of the wood used by domestic wood processors in 2000/01. Of the total volume of logs processed in Australia, about 56 percent of roundwood removals were sourced from plantations.

The Government of Australia (GOA) is seeking to increase the proportion of log sources from plantations over the next 20 years. The 2020 Forest Vision Plan (*Plantations for Australia: The 2020 Vision*) was released in October 1997 and aims to increase the proportion of logs sourced from plantations from the current level of 55 percent to around 80 percent by 2020.

Forest Outlook

Australian forest industries have a number of issues concerning future growth and development. The primary issue is the development of internationally competitive forest industries, while at the same time protecting the environment. The GOA implemented Regional Forest Agreements in 1998. The RFA's are an attempt by the GOA and the states to cooperate and coordinate forest development and virtually assure that the Commonwealth government will not intervene or override state forest management and wood supply arrangements, provided that the states meet commitments under the RFA.

Prior to the introduction of RFA, the GOA's main instrument for sustainability was via the issuing of export licenses. However, the licenses were deemed a crude and ineffective way of managing environment issues and were also seen as distorting regional development.

Past ABARE studies have identified an additional million hectares of cleared farmland where timber production promised to be more profitable than farming. Most new tree plantations are likely to be developed on cleared agricultural land.

Consumption

Australia's consumption of sawn wood and wood based panels rose sharply in 2001/02, following the slump in 2000/01 which was bought on by a sharp decline in building activity. (See policy, taxation).

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Trade

Import Trade Matrix			
Country	Australia		
Commodity	Softwood Lumber		
Time period	Jan-Dec	Units:	000m3
Imports for:	2000		2001
U.S.	31	U.S.	14
Others		Others	
New Zealand	466	New Zealand	333
Canada	234	Canada	107
Czech Republic	35	Czech Republic	13
Finland	34	Finland	10
Austria	13	Sweden	4
Germany	7	South Africa	2
Sweden	5	Fiji	1
South Africa	4	Austria	1
Estonia	3	PNG	1
Chile	2		
Total for Others	803		472
Others not Listed	11		4
Grand Total	845		490

Source: Australian Bureau of Statistics

Note: Post uses ABARE figures for PS&D tables for improved accuracy.

Export Trade Matrix			
Country	Australia		
Commodity	Softwood Lumber		
Time period	Jan-Dec	Units:	000m3
Exports for:	2000		2001
U.S.	0	U.S.	19
Others		Others	
Japan	23	Japan	46
China	2	Indonesia	2
Malaysia	2	Nauru	2
Nauru	2	China	2
Philippines	1	Bangladesh	1
		New Zealand	1
		PNG	1
		UAE	1
Total for Others	30		56
Others not Listed	1		0
Grand Total	31		75

Source: Australian Bureau of Statistics (adjusted)

Note: Post uses ABARE figures for PS&D tables for improved accuracy.

Factors affecting US trade

Over the period 1990 to 2000, softwood lumber imports as a percentage of total consumption decreased from 31 percent to around 21 percent and appear to be falling steadily. Government sources indicate that much of Australia's increase in domestic softwood production has been targeted at "import replacement" rather than in boosting exports. However, the same sources indicate that imports have reached a "floor", with the remaining imports made up of "boutique" timber. It is anticipated that future growth in production will be targeted at export markets rather than import replacement. For hardwood, imports are now less than ten percent of domestic consumption.

The Australian Quarantine Inspection Service (AQIS) has initiated an import risk analysis on timber from North America. See policy section for more details.

Policy

Forestry is subject to a range of regulations administered by federal, state and local governments. Land and forest management is primarily the responsibility of the state and territory governments. Each state has a forest authority responsible for the management and control of publically-owned forests, in accordance with the Forestry Acts and Regulations of the state or territory concerned. State governments still own, manage and market a significant proportion of the plantation forest resource in Australia, as well as the bulk of the native timber supply. The active promotion of plantation forestry is a government priority, as it attempts to reduce the large trade deficit in forest products.

Taxation

The Government of Australia implemented a new tax system on July 1, 2000. This system replaced a range of taxes, most importantly the wholesale sales tax (WST), with a single Goods and Services Tax (GST) of 10% applied to all goods and services with some exemptions. The introduction of a GST contributed to a sharp decline in economic growth in late 2000 and in 2001.

The purchase of a new home was previously untaxed at the federal level. However, with the introduction of the GST, house purchases now attract a tax of 10 percent. To lower the impact of the new tax on first home buyers, the federal government initiated a scheme which provided a grant of A\$7,000 for people purchasing their first home, this amount was subsequently increased to A\$14,000. Building materials previously attracted a wholesale sales tax, which was replaced by the GST

Prior to the introduction of the GST on July 1, 2000, private building commencements for 1999/2000 totaled 168,020. Despite the introduction of the first home buyers grant, building commencements for 2000/01 (after the introduction of the GST) fell 33 percent to 110,975. For 2001/02 however, building commencements increased 45 percent to 161,190, just under the level prior to the introduction of the GST.

In a separate initiative, the GOA reinstated a significant tax concession that was abolished in November 1999, which allows investors in plantation timber to claim tax deductions up to a year in advance of the related expenditure. Investors will now effectively be able to invest in a plantation investor scheme and claim tax deductions based on budgeted agronomic expenditure for the following year. The most significant difference between this new scheme and the previous scheme is that the new scheme does not allow for deductions of non-agronomic expenses such as management fees. According to government sources, this taxation initiative has been developed to compliment the GOA's vision to increase the total plantation timber area to 3 million hectares by 2020.

Environment

In October 1997, the Commonwealth Government, in conjunction with State governments and the forest industry, launched *Plantations for Australia: The 2020 Vision*. The goal of this program is to triple the area in plantations by 2020. The program aims to remove institutional or market-based factors which inhibit plantation development. Achieving the objective of the program would require planting of around 80,000 hectares per year. New plantings are estimated at 95,000 hectares in 1999 and 124,850 in 2000.

The Regional Forest Agreement (RFA) is a consultative process whereby the Commonwealth Government and the state governments agree on the long-term management and use of forests in particular forest regions for up to 20 years. A key objective in each RFA is to establish a comprehensive, adequate and representative conservation reserve system that meets or exceeds criteria for preserving forest bio-diversity. A second key objective is to provide forest-related industries with security of access to specified native forest areas for the duration of the agreement to facilitate investment in these industries. The third objective is to provide ecologically sustainable management of the forest estate.

The first of the RFA's was struck in Tasmania and is now approaching the agreed five-year review process. While there are land classification issues to be resolved, government sources do not anticipate that changes emanating from this process will have any significant impact on production.

Quarantine

The Australian Quarantine and Inspection Service (AQIS) has started an Import Risk Assessment (IRA) on imports of coniferous sawn timber and logs from North America, as well as wood packing materials from Asia. AQIS has determined that the IRA will be conducted on a non-routine basis, since the analysis is expected to be large and technically complex. As part of this process, AQIS has released an issues paper for comment. This paper includes such aspects of the IRA as: expected scope of the analysis, the main pest and disease risk issues, a prospective timetable, and other matters to be considered. AQIS is now in the process of forming a technical committee to conduct the IRA.

A USDA delegation visited Australia in 2001 as part of the "Pest Risk Assessment of the importation into the United States of unprocessed eucalyptus logs and chips from Australia." The delegation visited major Eucalypt producing regions as part of assessing Australia's pest risk.

Market Segment Analysis

Construction

The Australian economy has recorded growth averaging around 4 percent p.a. since 1997, however according to ABARE figures, is reported to have slowed to just 2.0 percent in 2000/01 and is expected rise to around 3.8 percent in 2001/2002. While ABARE reports Australia's economic outlook remains strong, a widespread drought is expected to adversely impact the rural sector and could trim aggregate growth somewhat. Furthermore, economic growth for some of Australia's key trading partners, such as Japan, is also expected to be a negative influence.

INTEREST RATES: HOUSING LOANS BANKS	
1995/96	9.75
1996/97	7.2
1997/98	6.7
1998/99	6.5
1999/2000	7.8
2000/01	6.8
2001/02	6.6

Rate as of June 30

Source: Reserve Bank of Australia - standard rate.

Furniture and Interiors Sector

Furniture manufacturing is small in volume and tends to be concentrated in niche markets, e.g., Tasmanian blackwood. Many manufacturers have moved overseas in order to reduce production costs. Some products are imported “knocked down” and assembled in Australia. There is some opportunity to expand this market. While price competitiveness continues to be an important factor, niche markets do exist for more expensive imported product.

Material Handling Industry

A major user of packaging and industrial paper is the manufacturing sector, in particular the food and beverage sector. Exports of manufactured goods and primary produce such as fresh fruit, vegetables and flowers are also intensive users of packaging paper.

Only minor amounts of packaging timber are imported.

Other Marketing Opportunities

Imports of coopers products and staves etc. have increased rapidly in the past few years, in line with the tremendous growth in the Australian wine industry. Imports of these products rose from A\$26.5 million in 1996/1997 to A\$68.5 million in 2000/01. The US and France are the principal suppliers of this material. Imports of assembled parquet flooring panels increased from A\$6.3 million to A\$20 million over the same period of time.

Tariffs

The general applied import tariff on sawn timber (4407.10.10) is five percent, four percent for Canada and four percent for countries with developing country status.

There is no import tariff on softwood logs.